Annual Report

FOR THE YEAR ENDING OCTOBER THIRTY-FIRST * 1945

GENERAL SHOE CORPORATION

NASHVILLE, TENNESSEE

Corp. File

STANDING ON THE TEST OF TIME

DIRECTORS OF GENERAL SHOE CORPORATION—*left to right:* JACK R. BRADEN, GEORGE W. NOLAND, HOUGHTON D. VAUGHN, FRED THOMAS, NOBLE C. CAUDILL, HENRY W. BOYD, JR., WILLIAM H. WEMYSS, J. HARLAN LAWSON, PRESIDENT W. MAXEY JARMAN, EARLE T. BUMPOUS, WILLIAM M. BLACKIE, CHARLES W. COOK, CLAUDE M. SWINNEY, CANDLER W. BUTLER, OTIS C. WILLIAMS, JAMES P. SAUNDERS.

Officers:

W. MAXEY JARMAN	*President*
WILLIAM H. WEMYSS	*Executive Vice-President*
HENRY W. BOYD, JR.	*Vice-President and Treasurer*
J. HARLAN LAWSON	*General Manager*
WILLIAM M. BLACKIE	*Vice-President*
EARLE T. BUMPOUS	*Vice-President*
JAMES P. SAUNDERS	*Vice-President and Secretary*
GEORGE W. NOLAND	*Vice-President*
NOBLE C. CAUDILL	*Vice-President*
OTIS C. WILLIAMS	*Auditor*
CHARLES W. COOK	*Assistant Vice-President*
HOUGHTON D. VAUGHN	*Assistant Vice-President*
H. NELSON CARMICHAEL	*Assistant Secretary*

Transfer Agents: **Guaranty Trust Company of New York, N. Y., and American National Bank, Nashville, Tennessee.**
Registrars: **Chemical Bank and Trust Company, New York, N. Y., and The Nashville Trust Company, Nashville, Tennessee.**

Annual Meeting of Stockholders: March 5, 1946

Manufacturing Plants:

Nashville, Tenn. (Four)
Gallatin, Tenn. (Two)
Tullahoma, Tenn. (Two)
Lewisburg, Tenn.
Pulaski, Tenn.
Hohenwald, Tenn.
*Centerville, Tenn.
*McMinnville, Tenn.
Huntsville, Alabama
Atlanta, Georgia
Lawrenceville, Georgia
Mexico City, Mex. (Two)
Whitehall, Michigan (Tannery)

***(Ready for Occupancy 1946)**

Sales Divisions:

Jarman Shoe Company
Richland Shoe Company
Davidson Shoe Company
Dominion Shoe Company
Edgewood Shoe Company
Barrett Shoe Company
Sewanee Shoe Company
Republic Shoe Company
Acrobat Shoe Company
Dominion Leathercrafters
KBS Shoe Company
Keenland Shoe Company
Monteagle Shoe Company
General Wax Industries
General Products Company

Company Operated Retail Store Groups:

JARMAN • FLAGG BROTHERS • JOHN HARDY • HOLIDAY'S

Report from The President of General Shoe

W. M. JARMAN
President, General Shoe Corporation

Total volume of business of General Shoe Corporation for its fiscal year ended October 31, 1945, was $61,122,583. Of this amount there was inter-branch business of $9,944,905, leaving net sales to customers of $51,177,678, a 14 per cent increase over net sales to customers during the fiscal year 1944 which amounted to $44,716,808. Shoes produced during the year totaled 13,415,574 pairs.

Earnings per share on common stock outstanding October 31, 1945, were $1.71 after making provision for preferred dividends. This compares with $1.54 during the previous fiscal year. Total net profits for the year amounted to $1,110,749. Regular dividends were paid on preferred stock, and dividends of $1.00 per share were paid on common stock. The balance sheet shows a ratio of current assets to current liabilities of 9.67 to one. Current liabilities are $1,485,880 after deducting $3,206,412 of U. S. Government securities against income tax liability. Cash and additional government securities amounted to $5,265,743.

Approximately 24 per cent of the Company's net sales have been on government military contracts. The Company is continuing to make a small quantity of military shoes, but it is expected that the military business will be reduced by perhaps as much as 90 per cent during this new fiscal year.

Plants which were engaged in the manufacture of military products have been converted back to the production of civilian shoes with very little loss of production. Daily production is now at a higher level than at any previous time in the history of the Company.

Demand from consumers and retailers continues very strong. There has been no slackening in consumer demand due to the reduction in employment in war plants. The discontinuance of shoe rationing has further intensified the need for more civilian shoes. A strong demand is present on all types and all grades of shoes, although perhaps more intense on the higher priced lines.

Inventories of shoes on hand in retail stores all over the country are very low. This is because retailers have not been able to obtain shoes to meet demands from their customers, and so have had their inventories cut down. This is unfortunate because it makes it difficult for retailers to give the proper service to consumers in offering a fair selection of styles and in having sizes and widths to properly fit their customers. There has been this additional demand from retailers, for quantities of shoes to fill their own stocks, as well as to take care of current demands from consumers.

This situation is causing shoe manufacturers to increase their capacity for the manufacture of shoes. With this abnormal demand from consumers and retailers to re-build their stocks, shoe manufacturers may go too far in increasing capacity, and within a year or perhaps longer it is possible that we may see a change in the situation as retailers reduce their purchases after re-building their stocks and as consumers get their buying back to a more normal basis. It is difficult to forecast when this over-production period may occur, but the likelihood of it occurring is a factor that must be taken into consideration.

However, with the considerable increase in population that has occurred in recent years, and with the gradually increasing standard of living in this country (which is a factor that appears to be basic in the economy of the country), it would seem that the normal production level of the industry will be on a considerably higher level than during the decade of the thirties.

Our own Company has been gradually increasing its percentage share of the total shoe production, and expects this trend to continue. In line with this trend, and in the carrying out of plans which have been previously made, the Company has completed or has in the process of construction sizeable additions to five plants which will provide for considerable increases in production. Plans are being made also for the adding of equipment to, and enlargement of, other plants.

In addition to this, the Company expects to have in operation shortly after the first of the year three additional plants. One of these plants is located in Huntsville, Alabama—a building that has been remodeled for our use. This plant will manufacture primarily work shoes. At Centerville, Tennessee, a new plant is now under construction where it is planned that we will manufacture children's shoes. At McMinnville, Tennessee, a new plant is now under construction for the manufacture of women's shoes.

Two warehouse buildings have been acquired in Nashville, and additional space will soon be available in the present main plant. The general offices, which have been located in this plant, will be moved to a building in downtown Nashville which has been acquired on a long lease basis.

Our upper leather tannery at Whitehall, Michigan, is being modernized, and considerable new equipment, including a large pasting unit, is on order for enlargement of the production of that plant and for the improvement of its efficiency. Considerable new equipment is also on order for our chemical plant, including an automatic packaging machine which will mean considerable saving in the production of our packaged shoe polishes.

During the past year our Company has also undertaken the manufacture of some of its own wood heels. The wood products plant in Nashville also manufactures shower clogs and other wood products.

SHORTAGE OF SUPPLIES

The supply of raw materials continues to present a serious problem to the shoe industry. While the elimination of most military production means considerable improvement in supplies, on the other hand the increasing demand and production of civilian shoes, the shortage of hides and leather in foreign countries, and the lack of labor which appears to be continuing in some localities, all constitute factors which have made it extremely difficult to secure adequate supplies of good quality materials. It seems likely that this difficult supply situation will continue for quite some time.

During the war, very strict controls were maintained on the distribution of world hides. While efforts apparently are going to be maintained to continue this control, it will not be practical to control them in nearly as complete a way, and also it is questionable whether it is to the best interest of the United States that the controls should continue.

Production of hides in the United States has usually been able to meet 80 per cent to 90 per cent of its domestic requirements. England, on the other hand, must import a large percentage of its requirements, and some European countries will be in need of quantities of imported hides. The exportable surplus of hides—that is, the number of hides that are available from those countries that produce in excess of their demand—prior to the war ranged from 20 to 25 million hides per year. That figure is down now to 5 to 7 million hides per year. This is due primarily to the greater absorption of hides by those producing countries within their own borders.

For this smaller quantity of available hides, England and European countries, and others who must import hides, will have to compete with each other. It is entirely possible that world hide prices may go upward under this kind of competition. With ceiling prices maintained on hides in this country by the OPA, it is very likely that hide producers will want to export their hides if foreign hide prices rise. Or—it is likely that leather producers will want to export their leather, or that shoe producers will want to export their shoes.

All of these are tied together with the world situation. Our country needs its hides, leather and shoes to take care of its domestic requirements. It would appear that the pressures for higher hide prices, which must be reflected in higher prices all along the line, are very great.

There is already a very insistent demand from foreign countries for shoes and leather. Our Company is taking care of its normal export business, but has declined to take on any of the large export orders that have been offered, as we feel strongly the necessity for taking care of our domestic trade.

During the past year our Company has operated on a 45-hour week schedule in most plants most of the time. In general these same working hour schedules will be maintained for some time so that most of our workers will show no drop in their weekly earnings. However, our Company has maintained right along that wages should go up, and it is expected that adjustments will be made from time to time to keep our wages in the right relationship to selling prices and to be sure that our workers are paid on a fair and proper basis.

RELATIONS WITH OUR EMPLOYEES

We have had good working relationships with our people, and believe that they have had a very reasonable approach to the Company. Workers are returning from military service every week, and these are being absorbed into the organization without the necessity of laying off any of our other workers. Normal labor turnover and the expansion of our operations take care of this problem, and we are happy to welcome home our former employees.

The Company has adopted during the past year a retirement program to cover both rank and file workers and supervisors. The entire cost of this will be borne by the Company and the plan will provide a pension at age 65 amounting to 1 per cent of the annual compensation for each year of service. Half of the primary social security benefits are deducted, as the company's social security tax is considered to pay for that part of the social security benefits.

This program can only be considered as the first step in providing for adequate retirement compensation, as it cannot completely take care of those workers in the lower brackets who have not been with the Company for a great many years prior to retirement. At the present time, the average age of the employees of the Company is comparatively low, and it is not expected that the retirement problem will be very serious for some years ahead. Nevertheless it is desirable to look ahead and make preparations in advance so that the burden does not fall too heavily in later years.

Prior to this year the Company had been carrying a reserve of $48,141 for retirement purposes, and during the past year an additional $151,859 has been set up for the purpose of carrying out this plan. We have been advised that the Treasury Department has approved the plan, making these amounts deductible for tax purposes. It is expected that additional amounts will be set up from year to year as seem desirable, but the plan provides that it may be discontinued at any time, or changed at any time, at the sole option of the Company.

Believing in the desirability of having its executives and employees financially interested in the business, the Company has for some years assisted in their purchase of common stock of the Company by advancing funds for the purchase of such stock on the open market, such funds being paid back over a period of years. As a further extension of this plan, the Company has offered a new plan to forty-three of its major executives which provides, as does the regular plan, that the stock be acquired at the current market price at the date of application, on an installment payment basis.

As a part of this plan, twelve thousand, nine hundred shares of new common stock were offered to

these individuals at the market price at the date of the offering, which price was twenty-three dollars per share. Information concerning this offering of new stock was filed with the Securities and Exchange Commission, and under the rules of the Commission, formal registration is not required on such an issue. Application has been made to the New York Stock Exchange for listing the additional shares.

All of the executives in the plan are on an equal basis, and each of them will receive three hundred shares of the new stock. Deferred payments on the stock are covered by notes signed by the purchasers, who assume liability for the full amount regardless of changes in the market price. In addition, the Company holds the certificates for all of the shares of stock until all of the payments have been made.

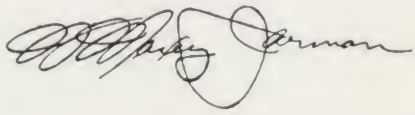
Executives of the Company have for years been sizeable stockholders in the business, and the management feels that it is desirable to continue to assist new executives, who are assuming greater responsibilities in the business, in acquiring stock in the Company.

PROSPECTS FOR YEAR

The Company, through its distribution branches, is making plans for the further expansion of its distribution when production is increased in the plant additions and in the new plants, and as other opportunities open up. It is expected that our national advertising programs will be considerably increased in the years ahead.

Prospects for the coming year would indicate a somewhat higher sales volume, but in spite of this a lower gross operating income as increasing operating costs create a squeeze with OPA ceiling prices. The elimination of excess profits taxes will, however, help our Company very considerably, as our business has grown rapidly and our excess profits tax was figured on an average income basis. It should be kept in mind, however, that as our fiscal year began November 1, two months of the fiscal year, or one-sixth of its gross operating income, will be on an excess profits basis, which means that our taxes during the coming year will not be on a level as low as if our fiscal year and the calendar year were the same.

Our organization as a whole has shown during these war years that it has great abilities and a wonderful spirit. As we go now into the peace years ahead, with many of our younger executives returning from the military forces, and with the opportunity of developing others to take on increasing responsibilities, we can look forward to sound growth and development in the future.



Dec. 20, 1945.

ACCOUNTANT'S REPORT:

November 29, 1945.

To the Board of Directors,
General Shoe Corporation,
Nashville, Tennessee.

We have examined the balance sheet of the General Shoe Corporation and its consolidated subsidiaries as of October 31, 1945 and the statements of profit and loss and surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. It was not practical to confirm receivables from the United States Government but we have satisfied ourselves with regard thereto by other auditing procedures. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

The condition of the accounts receivable indicates that the policy of providing for the bad debts on the basis of a percentage of credit sales has resulted in a reserve beyond the probable requirement.

The employees retirement plan, adopted in 1944, was amended in 1945. The amendment contemplates that the company shall provide a fund by contributions to a related trust to pay annuities to regular employees after retirement, and that all contributions to this fund shall be made by the company as it from time to time shall determine but it is under no obligations to make any contributions at any time. The reserve for employees retirement, which had a previous balance of $48,141, was increased $151,859 during the fiscal year 1945 through a charge to profit and loss, but no transfer had been made to the trust fund as of October 31, 1945.

Under the Renegotiation Act, profits on certain contracts with the United States Government are subject to renegotiation. Agreements for the fiscal years 1942 and 1943 have been entered into to the effect that no excessive profits were realized. The company has received a letter of recommended clearance for the fiscal year 1944. Predicated on past experience, the company does not anticipate a determination of excessive profits for the fiscal year 1945.

The indenture covering the fifteen year 3% sinking fund debentures restricts distribution of capital and surplus, except as to an amount of surplus at October 31, 1945 of $1,343,654.

In our opinion, subject to the apparent excessive provision for bad debts mentioned in the second paragraph, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position at October 31, 1945 of General Shoe Corporation and its consolidated subsidiaries and the results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

Consolidated Balance Sheets

AS OF OCTOBER 31, 1944 AND 1945

ASSETS	*October 31* 1945	1944
CURRENT ASSETS:		
Cash in banks and on hand	$ 3,481,231	$ 2,182,735
United States Government Securities, including tax notes $450,588 at October 31, 1945—at cost	1,784,512	78,000
Due from United States Government for merchandise	116,304	549,924
Accounts receivable, less reserve for bad debts and discounts	2,797,775	2,367,904
Inventories:		
Finished products—at approximate cost	969,807	1,201,382
Raw materials, work in process, and special merchandise—at the lower of cost or market	5,214,070	4,190,210
	$14,363,699	$10,570,155
INVESTMENTS:		
Capital stocks of other companies, including majority ownership in foreign subsidiaries not consolidated—at cost	$ 55,499	$ 55,499
Excess profits tax refund bonds	.....	64,914
Post-War Refund of Federal Excess Profits Tax—Estimated	.....	417,999
Officers and Employees Stock Purchase Accounts—Secured	251,681	132,769
Sinking Fund with Trustee	208,000	152,438
Property, Plant, and Equipment and Improvements to Leased Property—at cost	2,082,389	1,883,783
Less—Reserve for Depreciation and Amortization	913,163	835,132
	$ 1,169,226	$ 1,048,651
Good Will, Patents, and Trade Marks	1	1
	$16,048,106	$12,442,426
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable for merchandise, expenses, etc.	$ 486,765	$ 188,860
Due to officers and employees	76,251	72,484
Accrued liabilities	667,395	586,365
Dividend payable January 2, 1946 and 1945 on preferred capital stock	19,852	19,852
Reserve for employees retirement	200,000	.....
Provision for taxes on income, less United States Tax Notes, $3,206,412 and $3,088,000 at October 31, 1945 and 1944, respectively	35,617	205,825
	$ 1,485,880	$ 1,073,386
Fifteen Year Sinking Fund Debentures ($200,000 and $150,000 at December 31, 1945 and 1944, respectively, called for Redemption and Cash deposited with Trustee—Contra):		
3% debentures, due December 1, 1959	5,000,000	.....
3¼% debentures, due December 1, 1956	.....	2,200,000
Reserves for Retirement (1944), Insurance, and Contingencies	179,250	229,718
CAPITAL STOCK:		
Preferred stock without par value—Authorized and issued (or to be exchanged for old shares at October 31, 1944)—99,260 shares callable at $7.50 per share with liquidating value of $5 per share; having preference of 40c per annum cumulative dividends, payable on January 1, and July 1, (declared to January 2, 1946)	496,300	496,300
Common stock, par value $1 per share—Authorized 1,200,000 shares, outstanding (less 2,820 shares in treasury) 627,391 shares	627,391	627,391
Paid-in Surplus	3,646,388	3,646,388
Earned Surplus	4,612,897	4,169,243
	$16,048,106	$12,442,426
Net Working Capital	$12,877,819	$ 9,496,769
Current Ratio	$ 9.67 to 1	$ 9.85 to 1

CORPORATION

SUBSIDIARIES

Consolidated Profit and Loss

FOR THE YEARS ENDED OCTOBER 31, 1945 AND 1944

	Year ended October 31,	
	1945	*1944*
Sales, less returns and allowances	$51,177,678	$44,716,808
Less—Discount on sales	491,939	471,753
	50,685,739	44,245,055
Other income	40,878	31,238
	50,726,617	44,276,293
Cost of sales	40,501,269	35,137,299
Selling, general, and administrative expenses, and provision for bad debts	5,770,961	5,043,827
Interest and expense on debentures	167,626	71,906
Provision for:		
Contingencies	1,812	13,200
Taxes on income	3,174,200	3,002,650
	49,615,868	43,268,882
NET PROFIT FOR YEAR	$ 1,110,749	$ 1,007,411
Depreciation and amortization of plant, equipment, and improvements and lasts, dies, and patterns charged to operations	$ 401,921	$ 348,333

STATEMENT OF CONSOLIDATED SURPLUS

Earned Surplus

Amount at beginning of year	$ 4,169,243	$ 3,848,779
Net profit for the year	1,110,749	1,007,411
	5,279,992	4,856,190
DEDUCT—DIVIDENDS DECLARED ON:		
Preferred stock:		
Amount paid—20c per share in 1945 and 40c per share in 1944	19,852	39,704
Amount payable January 2, 1946 and 1945—20c per share	19,852	19,852
	39,704	59,556
Common stock—$1 per share	627,391	627,391
	667,095	686,947
Amount at end of year	$ 4,612,897	$ 4,169,243

Paid-in Surplus

Amount at beginning and end of year	$ 3,646,388	$ 3,646,388

McMinnville, Tennessee (Women's) plant, now under construction

Parent Plant, and General

Hohenwald, Tennessee, Plant, where Acrobat Children's shoes are made

Betty Barrett shoes are made

This is the second of our Children's shoe plants, at Centerville, Tennessee, now under construction

A part of the Men's Division,

Our "Number One" Plant at Gallatin, Tennessee

The home of General Wax Industries at Nashville

Another of our plants at Gallatin, Tennessee

General Products Corporation, our display division

PLA
of
GENE
SH
CORPO

Offices, Nashville, Tennessee

here, Frankfort, Kentucky

our Lewisburg, Tenn., plant

NTS
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RATION

The "General Shoe" building recently acquired for general offices of the company at Nashville

Home of Dominion Leathercrafters, Nashville

Tullahoma, Tennessee (Men's) plant

Mexico City, Hispano plant

Upper leather is tanned in our Whitehall Michigan, tannery

Our Edgewood Plant in Atlanta, Georgia

Our Women's Division plant at Cowan, Tennessee

Our Eclipse plant in Mexico City

Operations have just started in this Huntsville, Alabama, plant

Lawrenceville, Georgia, plant, Women's Division

Pulaski, Tennessee, plant of the Men's Division

FIVE-YEAR COMPARATIVE RECORD

	Years ended October 31				
	1941	*1942*	*1943*	*1944*	*1945*
Total Volume of Business	$28,703,862	39,949,226	48,990,794	53,474,786	61,122,583
Net Sales Less Inter-Branch Business	$23,729,199	33,738,750	40,886,382	44,716,808	51,177,678
Total Taxes on Income	$ 509,700	2,148,400	2,936,700	3,002,650	3,174,200
Net Earnings	$ 1,064,151	1,023,373	1,229,136	1,007,411	1,110,749
Earnings Per Share Common Stock	$ 1.63	1.57	1.90	1.54	1.71
Taxes Per Share Common Stock	$ 1.36	4.16	5.45	5.63	6.02
Dividends Per Share Common Stock	$ .90	1.00	1.00	1.00	1.00
Dividends Paid	$ 603,880	666,759	667,097	667,095	667,095
Per Cent of Net Income Distributed	56.7	65.2	54.3	66.2	60.1
Retained in Business	$ 460,271	356,614	562,039	340,316	443,654
Current Assets	$ 7,380,109	10,281,900	10,654,807	10,570,155	14,363,699
Current Liabilities	$ 880,885	876,851	973,238	1,073,386	1,485,880
Working Capital	$ 6,499,224	9,405,049	9,681,569	9,496,769	12,877,819
Net Worth	$ 7,693,942	8,054,660	8,618,858	8,939,322	9,382,976
Debentures Outstanding	$	2,500,000	2,350,000	2,200,000	5,000,000
Preferred Stock	$ 496,300	496,300	496,300	496,300	496,300
Common Shares Outstanding	626,671	627,173	627,391	627,391	627,391
Depreciation and Amortization	$ 326,508	561,695	308,735	348,333	401,921
Pairs Produced	9,629,572	10,603,424	12,029,218	12,520,751	13,415,574

SOME THINGS ABOUT OPERATIONS AT GENERAL SHOE

To understand a business organization, it is necessary to know a good deal more than just the facts that are presented in the balance sheet, profit and loss statement and other statistical reports. The purpose of this comment is to give to those who are interested an insight into the way the Company operates, based on the policies, methods used, how it is organized, what it believes in, and what it does.

The management of a company has at least a threefold responsibility: to the public served by the business, to the employees of the company, and to the stockholders of the company. The operation of the business should be coordinated and balanced so that the service rendered to the public, the relationship with employees, and the return on the stockholders' investments will all fit in with each other in a manner most beneficial to each group. Just as with a three-legged stool each leg is essential, so it is that each one of these groups is essential and dependent upon one another. The job of management is to operate the business on the most efficient possible basis, and to keep that three-legged stool in balance.

ORGANIZATION PLAN

The Company has approximately 3500 stockholders. There is a fair distribution of stockholders over the country and the stock is listed on the New York Stock Exchange and the St. Louis Stock Exchange. One trust fund, the income from which is used entirely for religious and charitable purposes, owns slightly more than 10 per cent of the common stock, but no individual owns as much as 5 per cent of the common stock.

The Board of Directors now consists of sixteen men, all of whom have a number of years of experience in this business, and all of whom hold active executive positions with the Company. Each of the directors is a sizeable stockholder.

The President and two of the other senior executive officers have been with the Company since it was started as a small independent operation twenty-one years ago. As the Company has grown, the organization has been decentralized as much as possible, with considerable delegation of authority to executives all along the line. This delegation of authority has been accompanied by uniform central financial and accounting control and policy coordination, maintained by close working relationships with the major executives. As the Company has grown larger, the central staff organization has been developed to serve in a coordinating capacity on purchasing, industrial relations, accounting, and administrative work.

General Shoe has a Junior Board of Directors composed of experienced executives whose advice in operating the company is valuable.

Along with decentralization, the policy of specialization has been closely followed. Each shoe manufacturing plant specializes on a certain type of shoe in a certain range and grade of shoe. The distribution branches cover certain fields, certain lines and products.

In addition to the Board of Directors, there are various management committees which meet from time to time. In general these committees serve in coordinating work of the various departments and helping to secure information rather than in making decisions. It is necessary for a business to be able to make decisions quickly, and our executives are trained to assume the responsibility, knowing as they do the general policies of the Company.

OUR PRODUCTS

Our Company manufactures and distributes nearly all types of men's, women's and children's shoes in the popular price ranges. No shoes are made in extremely low price fields and none in extremely high price fields, but the various lines cover most of the volume fields. Of the Company's total capacity of around 55,000 pairs per day, approximately 60 per cent is men's shoes, 30 per cent women's shoes, and 10 per cent children's shoes. However, with the new plants now under contemplation, the percentage of women's shoes and children's shoes will perhaps increase somewhat.

Foremen at General Shoe are listened to closely by management. Here is our Foremen's Advisory Committee.

There are a number of lines of men's shoes retailing from around $4.00 to about $9.00. These shoes are made in a wide range of styles and patterns, from conservative to up-to-the-minute styles. Boys' shoes are made along with the men's shoes, and come in a number of grades. Work shoes, including work boots, are manufactured in a variety of types to take care of the demand.

Retail prices on the women's shoes range from about $4.00 to about $7.00. These include walking oxfords, sport type shoes, medium style shoes, high style shoes, and casual shoes. Casual shoes have been a development in recent years, and indications are that these will be used in a growing way in the years ahead.

Children's and infants' shoes are made in several different constructions and retail from $3.00 to $5.00. The demand for children's shoes has increased considerably in recent years, and while our Company has not been in the field for a great many years, it is a rapidly growing part of our business.

During the past year, the Company produced a large number of different kinds of military shoes, including combat boots, army service shoes, regular navy shoes, navy field shoes, marine and coast guard shoes and other special items. This business has been almost eliminated, but the Company will probably continue to make a relatively small amount of military shoes.

In addition to shoes, the Company also produces ladies' hand bags and miscellaneous leather items, including brief cases and wallets, shoe polishes, window display fixtures, shower clogs, and tans upper leather. House slippers are also being manufactured in a limited way for both men and women.

GENERAL SHOE PLANTS

General Shoe Corporation at the present time operates eleven shoe manufacturing plants in the United States. The first plant, and the largest plant today, is located in Nashville, Tennessee, along with the headquarters of the Company. All of the other shoe manufacturing plants are located in the South, and with the exception of two which were acquired from existing owners, were established by our Company. Each of these plants specializes on a certain type of shoe, in a certain construction and in a certain field. Specialization is a big factor in developing efficient operation.

The Company operates a sole cutting and heel building plant at Tullahoma, Tennessee, and another in Nashville, Tennessee. An upper leather tannery, which was acquired from another company, is operated at Whitehall, Michigan.

The Company also operates a chemical plant in Nashville, producing shoe polishes for the retail trade, finishes and other items used in the manufacture of shoes. Another plant manufactures ladies' hand bags and other miscellaneous leather products. A woodworking plant produces window display equipment for our retail stores, wooden shower clogs and other miscellaneous wood items, including wood heels for our ladies' shoes.

In Mexico City, Mexico, the Company operates two shoe manufacturing businesses, producing shoes entirely for the Mexican trade and operating in the relatively higher price field. The operation in Mexico is on a completely separate basis, and is one of the largest shoe manufacturing operations in that country. These plants are operated chiefly by native Mexicans, with the help of technical experts trained in our plants in the United States. It is expected that the experience gained in Mexico might be of value in the further development in Latin American countries.

DISTRIBUTION METHODS

Products of our Company are distributed throughout every state in the Union and in a number of foreign countries. They enjoy very favorable reputations with retailers, and the good will that the Company has is one of its greatest assets. The different lines are sold under various brand names which are shown in another part of this report. Some of these brand names carry national advertising and some do not. The sales divisions carrying these different brands

operate under different names, with separate managers and separate sales forces covering the entire country.

In addition to selling shoes to the independent retailers, the Company also has divisions selling shoes to the chain store and mail order house trade. Most of these shoes are made up to the customers' specifications, and stamped with their brand names.

The Company also operates four groups of its own retail stores. Three of these groups are men's shoes of different price ranges: Jarman Shoe stores, Flagg Brothers stores, and John Hardy stores. Within the past two years a new group of stores under the name of Holiday's has been started, selling women's shoes. Approximately eighty-five retail units are owned by the Company at the present time.

National advertising has always played a big part in the distribution of some of the lines of the Company. Jarman shoes for men have been advertised extensively in national magazines for a number of years. In the medium price field, Fortune shoes for men have been advertised nationally. Within the past year Acrobat shoes for children have had an extensive advertising campaign in the newspapers of the larger cities. Other advertised brands are Friendly shoes for women, Skyrider shoes for boys.

In addition to national advertising, our retailers also advertise our brands, and window display materials and other dealer helps are furnished our dealers to assist them in their promotion campaign. In addition to the brands mentioned above, there are Davidson and Kingston shoes for men, Statler work shoes, Barrett style shoes for women, Edgewood sport oxfords for women and growing girls, Fortunette and Hylander casual shoes for women, and Pre-Vue and Hygea shoes for women.

INDUSTRIAL RELATIONS

The Company considers as one of its greatest assets the very fine group of men and women who are employed in General Shoe plants. These people take great pride in the work they do and have been very cooperative in building the best possible products. While it is not possible to maintain the same close *personal* relationship that existed when the Company was smaller, there does continue to exist a very fine working relationship between management and employees.

In the management group, foremen are the key men in the maintenance of proper relationship with the workers on the machines. Our Company is very fortunate in having a fine group of people who make up our first line supervisors. Most of these have grown up with our Company and have been trained from the start in the policies and methods which we believe in. Frequent conferences and meetings in the individual plants and on a centralized basis in Nashville are used to discuss policy problems and to help in the right development of these men.

The Company maintains written policies covering most matters having to do with employee relations. These policies are revised from time to time to bring them up to date. There is a central personnel staff organization and individual personnel men in each of the plants. Communication with the employees is an important part of our business, and this is done by giving them reports on the operation of the business, by letters to their homes from time to time, by our employee newspaper, and through our personnel workers.

Nearly every General Shoe plant has its own Employees' Advisory Committee which meets monthly as a clearing house between management and employee.

Wherever we have a sizeable group of workers, there are advisory committees, or labor-management committees, consisting of elected representatives of the employees and representatives of management who meet, usually once each month, to discuss any questions or suggestions the employees may have about the operation of the business, and to give them a voice in matters that affect the operators. These meetings of employees with management have been very helpful in making possible the better operation of the business and in the exchange of viewpoints between the two groups.

Practically all of the employees are on a piece work basis whereby each can earn according to his own efforts. The Company maintains a minimum wage higher than that required by law, has paid vacations of up to two weeks depending on the length

Award made to General Shoe Corporation by the Financial World for the best annual report to the stockholders, (shoe and leather industry), for the fiscal year ending October 31, 1944.

SUGGESTIONS WANTED FROM OUR STOCKHOLDERS

Again in 1945 General Shoe Corporation's Reports to its Stockholders was voted the best in the shoe and leather industry—in a contest conducted by the Financial World of New York.

Out of 1,250 reports examined, ours was also declared one of the best among all industries and businesses. Naturally we are pleased with this distinction, but we want to hear from you, our stockholders, as to what ***you*** *would like to have included in or omitted from this report.*

After you have examined our Report to the Stockholders, write directly to the president of General Shoe Corporation, Maxey Jarman, Nashville, Tenn., and give us your suggestions.

of service, overtime provisions more liberal than those required by law, and various other modern provisions designed for the best interest of the worker. If the worker's interest is served, our Company will continue to attract the very best employees, and because it has a group of individuals who feel that they are treated fairly, better work will result.

The Company has also arranged in most of its plants for sick benefit associations, group life insurance, hospitalization insurance coverage, credit unions and other programs of this kind. In most of the plants, hospital and first aid facilities are maintained, with a trained nurse in attendance. Safety receives very careful attention and safety records are studied from month to month.

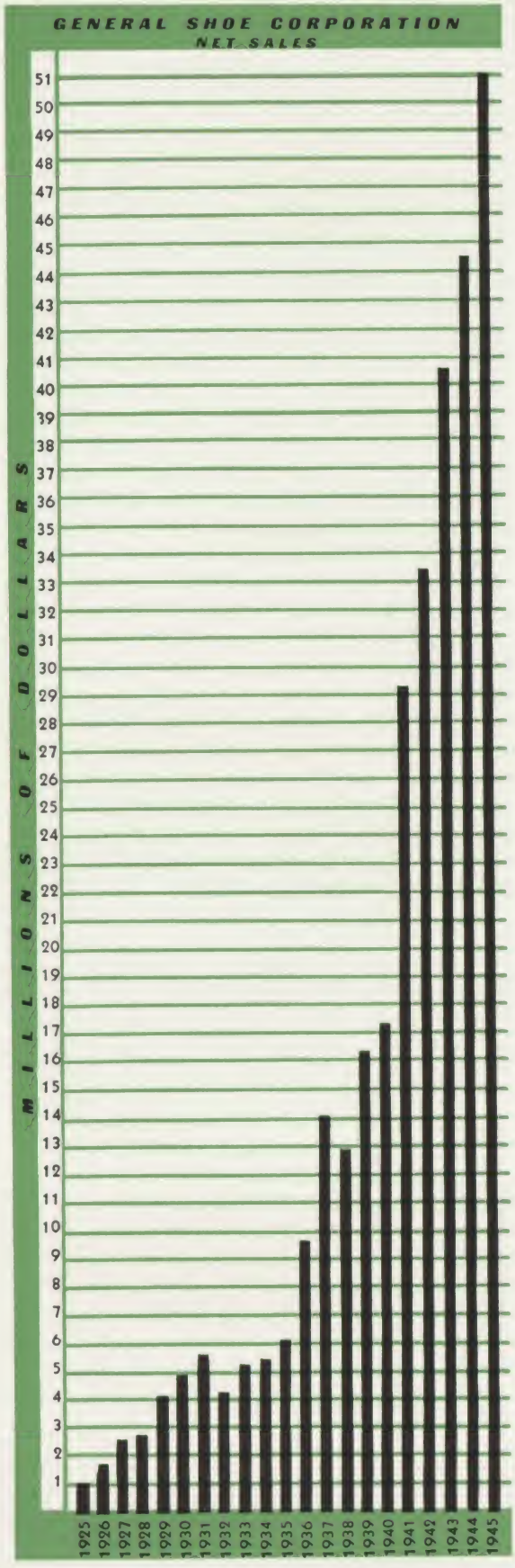
The Company has recently adopted a program which provides a retirement income for employees at age 65. The Company carries the entire cost of this program.

General Shoe follows a very careful policy of training workers, and a system for promoting workers within the organization is in effect throughout the Company. As a rule, the Company prefers to employ those without previous experience in the shoe business. This is expensive and means that the operator will not attain maximum efficiency for some time, but it is believed to be preferable to give the employees training in the methods and policies of our Company. Considerable work is being done in motion time analysis with a view to eliminating waste motions and finding the best method of doing each job. As these methods are established they are taught to all new workers.

A special management committee is constantly studying ways and means of working out problems of employee relations in a better way. Another management committee considers all suggestions from employees and others, trying to develop improvements.

There is an extensive recreation program which is carried on by the employees themselves, with the assistance of the personnel executives and with the encouragement of the management of the Company.

General Shoe's production of military boots, shoes and other materiel ended, largely, after the defeat of Japan. Here are some of the items we produced for America and her allies during the World War II period.



There are a number of employee social clubs in the various plants.

The personnel officers also serve to give help to employees with their own personal problems on legal and tax matters, etc.

In most of the plants there is an employee newspaper which is a newsy, tabloid size publication. There is a special edition for each plant, and it is primarily an employee newspaper with news and photographs of employees. Most of the paper is written by employees themselves. There are frequently articles explaining Company policies and answering questions from the employees. Nevertheless, the paper is not used as a means of propaganda.

SUPERVISORY TRAINING PROGRAM

One of the problems of the business throughout its history has been that of developing men fast enough to take on additional responsibility as the Company has grown. In recent years a general training program has been developed to aid the present supervisors in getting a better understanding of the Company's policies and methods, in locating and developing new men, and in preparing them for supervisory positions.

These training programs are conducted on the job by our plant supervisors, and also in central headquarters with various executives of the Company participating. In addition to this general training program, the Company is also undertaking at this time a program which involves selecting from time to time a special group of young men, either from within the organization or from without, with the idea of taking two or three years to give them a thorough background of training in the Company so that we will have a specially selected group from which to choose supervisors in the future.

GENERAL POLICIES

The Company believes in growth—steady, consistent growth. It believes in growth because that keeps an organization alert and keyed up to meet changing competitive conditions so as to be able to go ahead. A growing company is a live company. A static company will soon begin to slip behind.

It is our objective to increase our productive capacity during periods of great economic activity when the demand for shoes is very high. Then, during the down trend of the general business cycle, our objec-

tive is to so strengthen our sales and promotion effort that we will be able to continue operating our plants at full capacity, although we will not continue to increase capacity during those periods. This policy provides year-round employment, and employment from year to year for all of our employees, avoiding the necessity of lay-offs. The history of our Company for the past twenty-one years shows that in the main this record has been maintained in a reasonable way.

In this connection, the Company has believed in planning, and since 1928 has operated with plans projected ahead for at least a five-year period. It has been necessary from time to time to modify these plans, but the establishment of objectives and goals has been of considerable assistance in keeping us on the main track and setting the direction in which we wanted to go.

In August we produced the 100 millionth pair of shoes since our beginning in August, 1924. The employees in this group were with the Company when it started, and participated in the making of the 100 millionth pair.

88 OF THESE COMPANY-OPERATED RETAIL OUTLETS AND APPROXIMATELY 20,000 DEALERS SELL THE PRODUCTS OF GENERAL SHOE CORPORATION.

Jarman Shoe Store

Flagg Bros. Shoe Store

John Hardy Shoe Store

Holiday's Shoe Store

Jarman
SHOES FOR MEN

SEWANEE
Styles

Flagg Bros

Acrobat

Skyriders
SHOES FOR BOYS

BRAND NAMES OF GENERAL SHOE CORPORATION PRODUCTS

John Hardy

SEWANEE
Fortunets

Friendly
"Sports"

76
BOOT POLISH
25¢

Barrett
ORIGINALS

Holiday
FINE SHOES
BAGS

Pro-Vue
STYLES OF TOMORROW

Fortune
SHOES FOR MEN

GENERAL SHOE CORPORATION